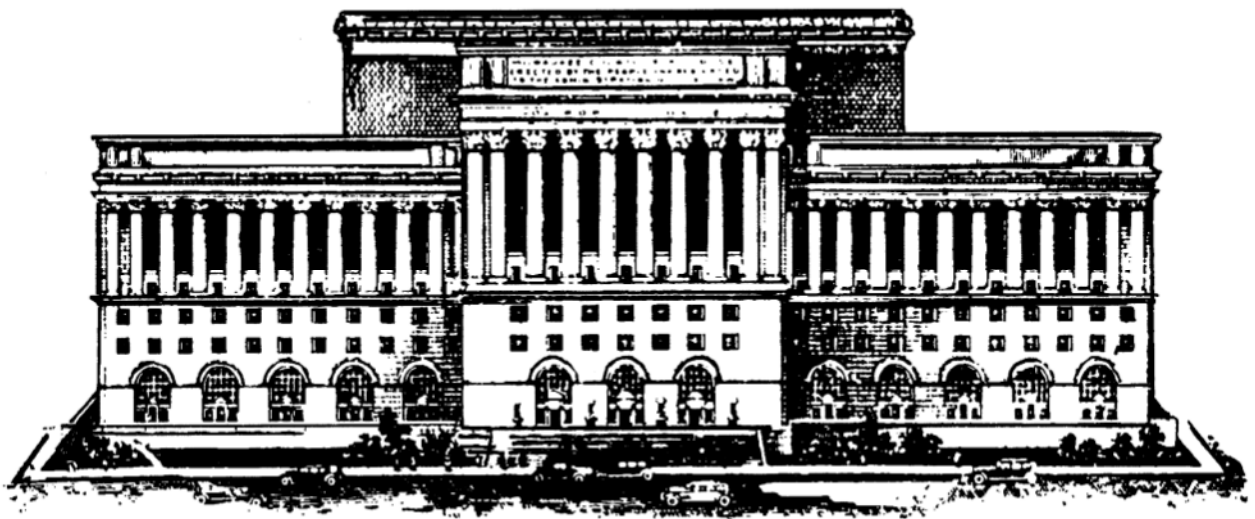


**COUNTY OF
MILWAUKEE, WISCONSIN**



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2007**

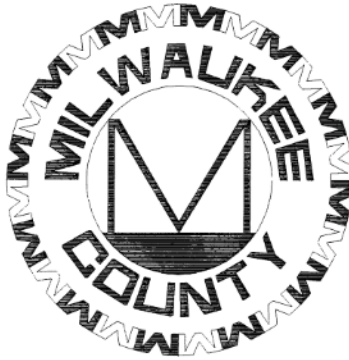
COMPREHENSIVE ANNUAL FINANCIAL REPORT

COUNTY OF MILWAUKEE

WISCONSIN

FOR THE YEAR ENDED DECEMBER 31, 2007

Prepared by:
Department of Administrative Services
Fiscal Affairs Division



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COUNTY OF MILWAUKEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended December 31, 2007

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INTRODUCTORY SECTION

- **Letter of Transmittal**
- **Certificate of Achievement for Excellence in Financial Reporting**
- **Organizational Chart**
- **List of Elected and Appointed Officials**



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MILWAUKEE COUNTY EXECUTIVE SCOTT WALKER

Milwaukee County

DEPARTMENT OF ADMINISTRATIVE SERVICES

CYNTHIA ARCHER, DIRECTOR

STEPHEN KREKLOW, FISCAL AND BUDGET ADMINISTRATOR

July 28, 2008

To: Honorable Members of the Milwaukee County
Board of Supervisors and the Citizens of
Milwaukee County, Wisconsin

A) COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):

CAFR Overview

The Comprehensive Annual Financial Report (CAFR) of Milwaukee County, Wisconsin (the County) for the year ended December 31, 2007 is hereby submitted for your information. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of Milwaukee County, Wisconsin. All disclosures necessary to enable the reader to gain an understanding of Milwaukee County, Wisconsin activities have been included.

The CAFR is presented in three sections:

The **Introductory Section**, which is unaudited, includes this letter of transmittal, the prior year's Certificate of Achievement for Excellence in Financial Reporting, the County's organization chart, and a list of the County's principal elected and appointed officials. It is designed to give the reader of the financial report some basic background information about the County.

The **Financial Section** includes the independent auditors' report on the basic financial statements, management's discussion & analysis, the basic financial statements, required supplementary information, and the other supplementary information including the combining and individual fund financial statements and schedules. See a discussion below of the components of the Financial Section.

The **Statistical Section**, which is unaudited, includes selected financial and demographic information generally presented on a multi-year basis.

Financial Section Overview

The County has prepared the Financial Section to meet the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34). Other Supplementary Information, section 4 below, is not required by GASB 34 but provides useful information about the non-major funds of Milwaukee County.

- 1) **Management's Discussion and Analysis** - a narrative report providing financial information about the County. Readers of this report are encouraged to read the Management's Discussion and Analysis (MD&A), in conjunction with this Letter of Transmittal. The MD&A provides basic financial information about the County and an overview of the County's activities.
- 2) **Basic Financial Statements**
 - a) **Government-Wide Financial Statements** - government-wide financial statements, consisting of a statement of net assets and a statement of activities, provide a comprehensive financial picture of the County, split between governmental activities and business-type activities. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, where all assets, liabilities, revenues, and expenses of the County are reported. Internal service funds are combined with governmental activities for presentation purposes.
 - b) **Fund Financial Statements** - report on the major individual governmental, proprietary, and fiduciary funds of the County. Budgetary comparisons are also provided to allow the reader to see the original adopted budget, the revised adopted budget, and the actual expenditures and revenues for the County's general fund. The governmental funds are prepared and presented on the modified accrual basis of accounting. The proprietary funds are prepared on an accrual basis of accounting. With the governmental funds having a different basis of accounting between the government-wide financial statements and the fund financial statements, a schedule is provided that reconciles these accounting differences. The reconciliation provides a bridge between governmental activities on the statement of net assets with the governmental funds on the balance sheet and the governmental funds net change in fund balances on the statement of activities with the governmental funds statement of revenues, expenditures and changes in fund balances. The proprietary funds statement reports on each of the enterprise

funds and includes a separate column that combines all internal service funds.

- c) **Notes to the Financial Statements** - explanatory notes to the financial statements as required by governmental accounting standards.
- 3) **Required Supplementary Information** - required schedules of supplementary data immediately after the notes to the financial statements.
- 4) **Other Supplementary Information** - identified as the Other Supplementary Information – Combining and Individual Fund Statements and Schedules. This section will show the combining statements for the non-major governmental funds, the internal service funds, as well as budgetary comparisons for major funds other than the General Fund. As noted earlier, the internal service funds were combined and reported as a separate column in the proprietary fund financial statements. They are reported here because they are not considered to be major funds.

Component Units

This Comprehensive Annual Financial Report (CAFR) includes the funds of the primary government and the following discrete component units: the War Memorial Center, the Milwaukee Public Museum, Inc., the Marcus Center for the Performing Arts, and the Milwaukee County Research Park Corporation.

As of July 1, 2007, governance of the Private Industry Council of Milwaukee County was transferred from Milwaukee County to the City of Milwaukee. To reflect the change, the City of Milwaukee appointed a new board for the Private Industry Council and changed its name to the "Milwaukee Area Workforce Investment Board". Due to this change, the former Private Industry Council of Milwaukee County is no longer considered a component unit of Milwaukee County and has been removed from County's financial statements.

Discretely presented component units are more distinctly separate from the primary government and are therefore reported in a separate column in the government-wide financial statements. These entities are included because generally accepted accounting principles require that organizations for which the County either has a financial responsibility or governance influence, such as board appointments, be reported with Milwaukee County.

B) GOVERNMENTAL STRUCTURE AND TYPES OF SERVICES

Milwaukee County is located in southeastern Wisconsin on the Lake Michigan shoreline. The County covers an area of approximately 242 square miles and consists of ten cities and nine villages. The Michigan Territorial Government incorporated

Milwaukee County in 1835. In 1837 the Wisconsin Territorial Legislature divided Milwaukee County and reduced its size. Nine years later the County was divided again into its present size.

Milwaukee County was the first county in the State to establish an executive branch. A County Executive and a 19-member Board of Supervisors govern Milwaukee County. The County Executive and the County Supervisors are elected to nonpartisan four-year terms. Each Supervisor is elected from a district with an average population of approximately 50,000. In addition, six constitutional officers are elected to serve two-year terms on a partisan basis. The Sheriff is elected to serve a four-year term on a partisan basis.

The County Board determines County policy and directs the activities of County government by the adoption of ordinances and resolutions, under authority vested in it by State Statutes. At its annual meeting in November of each year, the Board adopts the next calendar year's budget. It meets on a regular basis to transact official business, and its committees meet regularly to hold hearings, gather information and take testimony preparatory to making recommendations to the full County Board.

The County operates two airports, a mass transit system, a behavioral health facility, a correctional facility, a sheriff's department, a civil and criminal court system, a zoo, a botanical garden, a nature center, several marinas, several golf courses, swimming pools, beaches, bike trails, and park areas.

The County also administers Federal and State public assistance programs. Other activities include employment and training services, legal counsel services for the indigent, community health care programs, emergency medical services, medical service funding for the indigent, correctional programs and counseling and residential programs for the mentally ill, disabled, and chemically dependent. The County is also responsible for the maintenance and construction of highways, roads, and bridges. In addition, the County also offers a number of general government services.

C) ECONOMIC CONDITION AND OUTLOOK

Milwaukee County serves as the population, economic and financial center of the State. The City of Milwaukee, which acts as the County seat, contains approximately 64 percent of the County's population and 48 percent of its taxable property value.

Milwaukee County's location on Lake Michigan, near the nation's geographic center and in close proximity to the Chicago metropolitan area, provides many economic advantages. The County has a well-developed arterial street and highway system, including four interstate highways, three major U.S. highways and 17 state highways. Freight service is provided to other metropolitan areas by numerous trucking establishments and two major railroads, the Union Pacific and Canadian Pacific. Passenger rail service is available from Amtrak and national and inter-city bus lines serve Milwaukee County. Milwaukee is also a major Great Lakes port. During 2007,

the Port of Milwaukee handled 3.6 million tons of materials. Port traffic has rebounded between 2003 and 2007, increasing by 34 percent. Major commodities included in this tonnage were coal, salt, grain and cement. A high-speed auto/passenger ferry service is also available between Milwaukee and Muskegon, Michigan.

One of Milwaukee's strengths is a highly diversified economic system. While the Milwaukee metropolitan area is well known as a manufacturing center, activity in other industries has grown increasingly important in recent years. Sectors demonstrating the highest growth in employment in recent years are education, health, leisure and hospitality, and professional and business services. The regional economy is transitioning away from manufacturing towards a service-based economy.

According to the first quarter business outlook survey by the Metropolitan Milwaukee Association of Commerce (MMAC), the business outlook in Milwaukee County remains positive. The majority of metro area businesses surveyed expect "continuing business gains in 2008". Based on a survey of 124 Milwaukee area firms, "sixty-nine percent forecast sales increases for 2008, sixty-one percent predict profit gains, and fifty-two percent expect employment growth for their local operations." The results of the MMAC's Business Outlook Survey suggest ongoing improvement in the metro area economic environment.

The average annual unemployment rate for Milwaukee County through December 2007 was 6.0 percent compared to the national average of 4.6 percent. After two consecutive years of decline in the unemployment rate, 2007 was the first year the County experienced an increase in the unemployment rate.

According to the United States Census Bureau, Milwaukee County's estimated population for 2007 is 951,252, a decrease of approximately 0.11% from the 2006 population estimate.

Milwaukee County is also home to a number of colleges and universities, including Alverno College, Cardinal Stritch College, Marquette University, the Medical College of Wisconsin, Milwaukee School of Engineering, Mount Mary College, University of Wisconsin-Milwaukee, and Wisconsin Lutheran College.

D) MAJOR INITIATIVES BY CLASSIFICATION

The following is a brief description of the departments and major initiatives for the classifications within both the Governmental Activities and Business-type Activities of the Statement of Activities.

Governmental Activities

- 1) **Legislative, Executive, and Staff** consists of the following areas, the County Board, the Office of Community Business Development Partners, the Department of Audit, the County Executive, the Department of

Administrative Services, the Office of Persons with Disabilities, Veterans Services, the Civil Service Commission, the Personnel Review Board, the Ethics Board, Procurement and Corporation Counsel.

The Department of Administrative Services includes Fiscal Affairs, Economic and Community Development, Human Resources, Employee Benefits and Labor Relations. In 2007, Human Resources was divided into three separate divisions: Human Resources for recruiting and centralized human resource management, Labor Relations for the negotiation and administration of collective bargaining agreements, and Employee Benefits for the management and cost containment of employee health, dental, and life insurance programs and administration of the County pension plan.

The Risk Management Division and the Information Management Services Division are also under the Department of Administrative Services for management purposes. These divisions are reported as internal service funds. They are consolidated into the governmental activities in the Government-wide Financial Statements and are included in the proprietary funds in the Fund Financial Statements.

- 2) **Courts and Judiciary** consists of Combined Court Related Operations and the Department of Child Support. State and non-tax revenues support approximately 52.6 percent of the cost of the Courts function. The balance of the costs is funded with County tax levy dollars.

The Combined Court Related Operations consists of County Funded State Court Services Division, the Family Court Commissioner Division, the Register in Probate Division, and the Clerk of Circuit Courts. The County Funded State Court Services Division is the first judicial administrative district of the State Court System and has 47 judges and 23 court commissioners. The Family Court Commissioner Division is the legal extension of the Family Court Branch of the Circuit Court. This division conducts formal hearings in matters relating to marriage and actions affecting the family. It also includes the Family Court Mediation Services Unit. The Register in Probate Division maintains the records and files of all probate proceedings and provides support to the courts on probate matters. The Clerk of Circuit Courts maintains the records, books and files of the circuit courts. The Clerk of Circuit Court is also the Director of Court Services. This position summons the eligible jurors for the County funded state court system.

The Department of Child Support is required by Title IV-D of the Social Security Act to provide services to locate parents, establish paternity, enforce and establish child support and medical support orders. The

Child Support Establishment and Enforcement Unit is part of this Department.

- 3) **General Governmental Services** consists of the separately elected positions of the County Treasurer, the Register of Deeds, and the County Clerk, and their associated staff and related costs. The Election Commission is also included in this category. In 2007, the County Treasurer's office began a pilot Tax Return Intercept Program (TRIP) to manage the collection of delinquent tax accounts. Recent state legislation has expanded TRIP to include the collection of delinquent property taxes.
- 4) **Public Safety** consists of the Office of the Sheriff, District Attorney's Office, Medical Examiner and the House of Correction.

The Office of the Sheriff is responsible for law enforcement, the safety and security of citizens and protection of property throughout the County. The Sheriff is a separately elected position within Milwaukee County. The Office of the Sheriff acts as an arm of the criminal justice system. In addition to providing detention services, the Office of the Sheriff provides bailiff services, security at the Airport, and patrols for County parks and expressways.

The District Attorney's Office plans, organizes, and prosecutes all criminal, juvenile and applicable ordinance violations in Milwaukee County. The District Attorney is a separately elected official of Milwaukee County. The District Attorney's Office also administers numerous federal and state funded grant programs that enhance the public safety of Milwaukee County residents.

The Medical Examiner investigates all deaths in which there are unexplained, unusual or suspicious circumstances such as homicides, suicides, accidental deaths, and all deaths in which there is no physician in attendance.

The House of Correction receives and maintains custody of all sentenced prisoners in Milwaukee County for periods not exceeding one year. The House of Correction also provides programs of work release, rehabilitation, education, work, recreation and training. It also operates a home detention program using electronic surveillance equipment and other systems of control. In 2007 the House of Correction and the Office of the Sheriff continued its inmate population control "cap proposal" for the Milwaukee County detention population. The "cap proposal" attempts to limit the population at the Criminal Justice Facility and transfer any overflow to the House of Correction, which is able to open and close sleeping/housing units on a more flexible basis.

- 5) **Public Works and Highways** in the General Fund consists of the Department of Transportation and Public Works - Highway Maintenance and Director's Office.

The internal service funds of Fleet Management; Architectural, Engineering and Environmental Services; Transportation Services; and Facilities Management are also under the Department of Transportation and Public Works for management purposes. These four internal services funds are consolidated into one fund for reporting purposes and are identified in the Comprehensive Annual Financial Report as "Public Works Services". The Public Works Services fund is reported as part of the governmental activities in the Government-wide Financial Statements and as part of the proprietary funds in the Fund Financial Statements.

- 6) **Human Services** consists of the Department on Aging, the Department of Health and Human Services (DHHS), DHHS – Behavioral Health Division and the DHHS - County Health Programs.

The Department of Health and Human Services (DHHS) provides a wide range of life-sustaining, life-saving and life-enhancing services to children and adults through age 60. Programs focus on providing services for delinquent youth, persons who are developmentally disabled, physically disabled, mentally ill, homeless, and those in need of financial assistance. Many of the services provided are mandated by State Statute and/or provided through a State/County contract. The department includes the Economic Support Division, which assists eligible people in obtaining Food Share (formerly called Food Stamps), Medical Assistance (Title 19) and child day care benefits. The department is also responsible for administering the State's BadgerCare health program and specialized financial assistance programs. The Delinquency and Court Services Division administers a wide range of juvenile justice programs and provides support staff for the operation of the Children's Court. This division operates a Juvenile Detention Center and also administers the following programs oriented to alleged and adjudicated delinquent youth: pre-dispositional secure/non-secure out-of-home placements, the First Time Offender program, post-dispositional placements, probation, and programs that are designed to divert youth from State facilities. The Disabilities Services Division provides human services that are targeted at populations with special needs, including adults and children with physical and developmental disabilities. The services administered by this division allow these persons to live in the community and avoid institutional placement. The Division utilizes a Resource Center format to serve these clients. The Management Services Division provides contract administration, accounting and business support to the other DHHS divisions.

The Department on Aging plans for and services the growing needs of Milwaukee County's large and diverse older adult population. Services are provided through the Department of Aging under the divisions of Area Agency Services, Resource Center and the Care Management Organization. Area Agency Services includes elderly services for educating the public on services available for older adults, senior meal programs and senior centers. The Care Management Organization is designed to provide an appropriate mix of community-based care and direct services through the State of Wisconsin's Family Care Program to prevent the inappropriate and costly institutionalization of older adults. The State's Family Care Program replaces the state's numerous long-term support programs with a single integrated long-term care entitlement program. Under Family Care, the Care Management Organization coordinates all long-term care services, including home and community based services and institutional services for eligible elders in Milwaukee County who require publicly funded long term care services. The majority of the Care Management Organization program revenue represents a capitated rate payment per member per month from the State. The capitated rate payment is adjusted on an annual basis after an actuarial review of costs. Forty percent of client service costs of the Care Management Organization are controlled by Medicaid rate rules. The remaining 60%, which is not covered by Medicaid rates, is based on rates established by the department or by contracts with providers. Due to the capitated rate payment, the Care Management Organization is required to maintain reserves against potential cost deficits. At the end of 2007 the program had approximately 6,257 clients.

The Department of Health and Human Services - Behavioral Health Division (BHD) was reported in 2006 as an enterprise fund of Milwaukee County. For 2007, BHD is reported as part of the General Fund, and included in the Human Services cost category. For the 2007 budget, an evaluation was made of the operations of BHD and the changes that have occurred in their operations over the last ten years. A decision was made that the BHD more closely resembled a governmental fund division rather than a proprietary fund unit. BHD provides care and treatment to mentally ill and developmentally disabled persons through contracts with community agencies, outpatient care, day treatment services and inpatient care. In 2007, BHD is focusing on studying the current housing for persons with mental illness, with a long-term outlook to improve and increase the housing for persons with mental illness.

The County Health Programs (CHP) is comprised of programs that pertain to health services for County residents or visitors. The division develops, implements and evaluates programs, opportunities, and

partnerships related to improving or providing for the health of Milwaukee County citizens. CHP is comprised of three areas of service: Administration, Emergency Medical Services (EMS) Program (Paramedics), and General Assistance Medical Program (GAMP). EMS (Paramedics) supports the provision of paramedic services in Milwaukee County. GAMP is the County's health care financing/delivery system for medically indigent persons residing within Milwaukee County. Local hospital systems and other care providers treat GAMP eligible clients and submit billings for services, through a third party administrator. Hospitals receive an interim cash settlement from the County for services, until the State of Wisconsin provides reimbursement under State and Federal funding programs.

- 7) **Parks, Recreation and Culture** includes the Department of Parks, Recreation and Culture, the Zoological Department, Milwaukee County University Extension Service and funding for the Milwaukee Public Museum. The Department on Parks, Recreation and Culture administers and operates the Milwaukee County Park System that includes 15,000 acres and encompasses 153 parks and parkways. The Parks include 15 golf courses, and numerous pools, beaches, pavilions, marinas, and athletic fields. The Zoological Department operates a zoo on a 200-acre site in western Milwaukee County. The Zoo's collection and exhibits are acquired with the assistance of private funding.

Business-type Activities:

- 1) The **Airports** are an enterprise fund that is classified as a business-type activity in the Government-wide financial statements. Milwaukee County operates two airports: General Mitchell International Airport (GMIA) and Lawrence J. Timmerman Airport. User fees support both of these airports. Airport administrative, maintenance and operational cost reimbursement are guaranteed through contractual agreements with the major airline carriers serving GMIA. Growth in flights and passenger traffic from GMIA, over the past several years has led to the need for additional parking at the Airport. Milwaukee County issued \$ 83.6 million of revenue bonds in 2000 for the building of an addition to the existing parking structure. These were the first revenue bonds issued by the County. The parking revenues were estimated to be sufficient to pay the bonds, but the bonds were also supported by the signatory airline lease agreements. In subsequent years, the County issued revenue bonds to fund improvements to the C and D concourses, finish the parking structure, repair the Bus/Limousine Queue area, remodel the E concourse stem and GMIA baggage claim area. Security measures put in place after the events of September 11, 2001 will continue for the foreseeable future. Security costs represent 10.9% of the Airports 2007 budget.

- 2) The **Milwaukee County Transit/Paratransit System** is an enterprise fund activity that is managed by Milwaukee Transport Services, Inc.; a private, non-profit corporation. The corporation uses facilities and equipment owned and provided by the County to transport passengers by bus to various locations within the County. The Paratransit system is also operated by Milwaukee Transport Services. The Paratransit system provides transportation using private vendors for passengers who meet the paratransit eligibility requirements. The County's Department of Transportation and Public Works (DTPW) oversees and administers federal and state grants for the transit system. DTPW - Transportation Services Division, an internal services fund, assists with the acquisition of capital equipment and facilities.

The Department of Human Services - Behavioral Health Division (BHD) will not be reported as an enterprise fund of Milwaukee County in 2007. As a result of a 2007 review of BHD's financial operation, the County began reporting BHD as part of the General Fund. BHD is no longer reported as an enterprise fund of Milwaukee County. The financial statements have been changed to reflect this new classification.

Countywide Financial Activities

- 1) **Employee Benefits:** In response to the concerns raised about the increased level of benefits that were granted to employees and elected officials in 2001, the County Board voted in February 2002 to change certain benefits. This included the level of payout at retirement for earned sick leave benefits. Prior to the change, all employees were entitled to full payout at retirement of earned sick leave benefits. In February 2002 the County changed the "earned retirement benefits" for non-represented employees by reverting to the previous pay out maximum of 400 hours plus 16 hours for each additional 100 hours or part thereof. Depending on hire date, sick leave at retirement is either paid in cash or is used to buy retiree health insurance. Between 2005 and 2007, union labor agreements were negotiated to reduce future *cash payouts* at retirement for sick leave earned. Sick leave for union members credited at retirement for retiree *health insurance payments* is generally still credited at 100%.

A lawsuit, filed in 2002, was pending in State court against the County seeking to have changes made in the retiree sick payout benefit for non-represented employees invalidated, and to have employees reinstated who retired as a result of the 2002 Sick Pay Change. This lawsuit requests both compensatory and punitive damages. A final decision was reached in early 2007, and settlement was made with retirees and the cost for future non-represented retirees could be estimated. Due to earlier court opinions, the County had set aside funds in 2005 and 2006 to cover these settlement costs.

The benefit enhancements and accelerated retirement rate have caused a severe strain on the County's budget. In 2001 and 2002, the County was contributing \$2.65 million and \$2.58 million respectively, to the Employee Retirement System (ERS). For 2004, 2005, and 2006, the County contributed \$35.1 million, \$37.8 million and \$27.4 million, respectively to ERS. The 2006 contribution was below an actuarial recommended contribution of \$45.9 million, based on an 8.0% rate of return on investments. The 2007 contribution was \$49.3 million, which approximated the actuarial contribution requirement.

The County has begun to successfully reduce certain pension benefits and contracts with most County unions effective in 2005. The contracts include the elimination of the pension eligibility Rule of 75 and the pension back-drop program. One union, DC 48 (AFSCME), which represents just fewer than half the County's employees, adopted a contract with these changes in early 2007.

B) FINANCIAL INFORMATION

Internal Accounting Controls

County management is responsible for establishing and maintaining an internal control structure designed to provide reasonable, but not absolute, assurance that County assets are safeguarded against loss from unauthorized use or disposition and assurance that the County financial records are free from material misstatement and accurately account for the County's assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived. The evaluation of costs and benefits requires estimates and judgments by management.

Milwaukee County's internal control structure is supported by written policies and procedures. It is continually reviewed, evaluated and modified to meet current needs. This internal control structure is strengthened by the Milwaukee County Department of Audit. Under Milwaukee County Ordinances and Wisconsin Statutes, the Department of Audit is an extension of the legislative branch of Milwaukee County and provides the County Board of Supervisors with consistent independent review of County operations. The Department of Audit is responsible for the examination of financial, reviews of internal accounting controls, administrative controls, compliance with applicable laws and regulations, economic efficiency of operations, and effectiveness in achieving program results. The Department of Audit are performed audits in accordance with generally accepted government auditing standards.

Budgetary Process

Milwaukee County has an executive budget process for the preparation of the annual operating and capital budgets. The Fiscal Affairs Division of the Department of Administrative Services provides the technical assistance required by the County Executive to review budget requests submitted by County departments and agencies. The Fiscal Affairs Division compiles departmental budget requests, along with non-departmental revenue projections, debt service requirements, capital improvements, contingency requirements and the required tax levy. It reviews areas where changes may be considered and transmits its findings to the County Executive. The County Executive holds public hearings with respect to the requests, meets with departments and submits a recommended budget to the County Board on or before October 1st of each year. Subsequent to the receipt of the budget by the County Board, the County Board's Finance and Audit Committee reviews the County Executive's budget at public meetings. On the Monday following its regularly scheduled meeting on the first Tuesday in November, the County Board acts on the amendments and recommendations submitted by the Finance and Audit Committee, as well as amendments submitted by individual Board members. It adopts a final budget, subject to any vetoes by the County Executive, and levies taxes to support the adopted budget.

Budgetary Controls

Budgetary control is maintained by a formal appropriation and encumbrance system. Encumbrances are made against appropriations prior to the release of a purchase order to a vendor, or prior to the issuance of a check when a liability is incurred without a purchase order. Liabilities that exceed appropriation balances are not paid until an increased appropriation is made available.

During the year, departments may request transfers of appropriated dollars between departments or from an unallocated contingency budget. All transfers require the approval of the County Board and County Executive. If a transfer is to be made within a department, approval of the transfer may not require County Board and County Executive approval.

Encumbered appropriations are carried forward at the end of the year by means of encumbrance reserves. These reserves are restored to departmental appropriation accounts in the following year. Expenditures are then recorded when the services or materials are received.

For County capital projects, any unencumbered appropriations and the associated unrecorded revenue that is still available at the end of the year may be "carried over" to the subsequent year. A report of unappropriated budget dollars and unrecorded revenues are reported to the County Board by capital project number. The County Board and County Executive will then review the report and make any modifications to "capital carry-over" requests. The final result is the establishment of a carryover

reserve for capital projects. Similar to encumbrance reserves, these reserves are restored to the departmental appropriation account and revenue budget in the following year.

County Tax Rate Limit

Section 59.605 of the Wisconsin Statutes imposed a property tax rate limit on Wisconsin counties, effective August 12, 1993. Separate limits were imposed for operating levy rates and debt service levy rates. The baseline for the rate limit was the 1992 actual levy rate adopted for the 1993 budget. Reductions in State shared revenues and transportation aid are among the penalties established by State Statutes for failing to meet the operating and debt service limit requirements.

The property tax rate established for general County operating purposes and special administrative levies, as part of the 1993 adopted budget, was \$4.08 per \$1,000 of equalized value. The maximum rate may only be increased if services are transferred between governmental units (transfers to other governmental units reduce the maximum rate), or if a referendum is approved by a majority of local electors to allow for an increase in the maximum rate. For 2007, the operating tax rate was \$ 3.19 per \$ 1,000 of equalized value.

The County adopted a debt levy rate of \$ 1.42 per \$ 1,000 of equalized value as part of the 1993 budget. The conditions under which the debt service rate may be increased include: 1) a referendum is held that approves the debt issuance; 2) the County Board of Supervisors adopts a resolution that sets forth its reasonable expectation that the issuance of the debt will not cause the County to increase the debt levy rate; 3) the issuance of the debt was authorized by an initial resolution adopted prior to the effective date of the rate limit; 4) the debt is issued for certain specified purposes, including financing regional projects under Section 67.05 (7)(f); 5) the debt is issued to fund or refund outstanding municipal obligations; or 6) the County Board of Supervisors adopts an initial resolution authorizing the issuance of the debt by a vote of at least three-fourths of the members-elect of the County Board. In accordance with the conditions outlined above, the County levied a debt levy rate of \$ 0.72 per \$ 1,000 of equalized value for the 2007 budget.

The rate limit also prohibits borrowing for "operating expenses". The statute defines "operating expenses" as "wages, salaries, fringe benefits, materials, supplies, contractual services, equipment with a useful life of less than one year and other costs specified by the Department of Revenue by rule".

Debt Administration

The County Board and County Executive monitor all anticipated borrowing plans of the County on a continuing basis. In 1994, Milwaukee County revised existing policies and established new policies that directly and indirectly affected its borrowing practices. Some of the changes included the development of guidelines for maximum

debt burdens, modifications to the procedures for accepting competitive bids, and the maximum length of maturity.

Wisconsin Statutes limit the County's direct general obligation borrowing to an amount equivalent to 5% of the equalized valuation of taxable property. At December 31, 2007, the County had \$ 452.3 million of general obligation debt, representing 13.5% of the \$3,356 million debt limit. The debt limit is based upon equalized value of County property of \$67.1 billion.

Approximately 89 percent of the County's general purpose obligations will be retired within ten years. County general purpose obligations do not include revenue bonds issued by the County with respect to the airports. For 2007, total debt of the County, which includes general purpose and Airport revenue bond obligations, was \$ 636.5 million. As of December 31, 2007, approximately \$ 190.4 million or 29.9 percent of the County's outstanding general purpose and revenue debt is for the Airports. Pursuant to the lease agreements with the airlines, signatory airlines are obligated to pay all principal and accrued interest payments for debt issued on behalf of the Airports.

Milwaukee County has maintained its ratings from Fitch IBCA, Moody's Investors Service, and Standard & Poor's Corporation on general obligation bond issues. Any explanations of the significance of ratings may be obtained from the rating agencies.

Fitch IBCA
AA

Moody's Investors Service
Aa3

Standard & Poor's
AA

In September 2003, the County authorized, but did not issue, general obligation promissory notes in the principal amount of \$14.2 million pursuant to the Credit Assistance agreement with a local company. These promissory notes would be issued in the event that the company defaults on Industrial Revenue Bonds issued within the last ten years to construct maintenance facilities for the company. In return for the credit assistance, the County obtained a mortgage on these maintenance facilities and \$4.9 million of debt reserves. Community Development Block Grant funds, for economic development, from the State of Wisconsin provided \$4.0 million of the reserve funds. These reserve funds accrue interest and total \$5.7 million as of December 31, 2007.

In 2004, the County provided a guarantee totaling \$ 1.0 million of a \$ 3.2 million loan for a non-profit corporation. The loan was used for the purchase of a building. This guarantee is now at \$ 0.4 million, based on terms of the original agreement.

On June 1, 2007, the County issued \$32.625 million of General Obligation Corporate Purpose Bonds. These bonds were used for various County capital improvement projects including highways and bridges, park improvements, building improvements and the replacement of buses and other vehicles.

Cash Management and Investment Policies

Milwaukee County's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. The County may purchase investment securities at prevailing market rates as allowed by Wisconsin State Statutes (S.66.0603(1m)) and Milwaukee County Ordinance. To the extent possible, the County attempts to match its investments with anticipated cash flow requirements. In the absence of individual security maturity limitations specified in the State Statutes, the County does not directly invest in securities maturing more than ten years from the date of purchase. County policy requires that direct investment in public depository securities is further limited to a maximum investment, per institution of \$500,000 at one time, unless an acceptable form of collateral, surety, or other guarantee exists assuring the principal repayment to the County. The County's investment policy limits the use of reverse repurchase agreements to transactions with commercial banks located in the State of Wisconsin to a period of time no longer than 14 days. The County enters into reverse repurchase agreements for cash flow purposes only.

The Pension Trust fund's available cash is held separately by an external trustee and is invested in various types of investments deemed appropriate by the Pension Board.

Risk Management

As stated in Note 10 in the notes to the financial statements, the County uses a Risk Management Fund, which is presented as an internal service fund, to account for the financing of uninsured risks of loss, loss control, and insurance-related activities of the County and its employees. The Risk Management Fund minimizes risk through the use of various risk control strategies. The County is self-insured for worker's compensation. County management believes that assets of the Risk Management Fund together with the commercial insurance companies' coverage will be adequate to meet insurance claims as they come due.

Pension Trust Fund Operations

The Pension Trust Fund ("Retirement System") accounts for the activities of the Employees' Retirement System ("ERS") and the OBRA 1990 Retirement System ("OBRA"). The ERS is a non-contributory single employer defined benefit pension plan that covers substantially all of its full-time employees. The OBRA (Omnibus Budget Reconciliation Act) 1990 Retirement System is a non-contributory single employer defined benefit pension plan that covers the County's seasonal and certain temporary employees (see Note 15 to the financial statements). For investment purposes, assets of OBRA are commingled with the assets of the ERS. A complete financial report of the Retirement System is available from the Pension Board that includes financial statements and required supplementary information.

C) OTHER INFORMATION

Independent Audit

The accounting firm of Virchow Krause & Company, LLP was engaged to perform an audit of the basic financial statements and to issue a report on internal controls and compliance with laws and regulations for the County. The auditors' report on the basic financial statements is included in this comprehensive annual financial report.

The selection of the independent audit firm was developed by a committee composed of representatives from the Department of Audit, County Controller's office, and two representatives from at-large departments. A request for proposal was issued to solicit proposals from eligible firms. The proposals received by the County were reviewed and ranked by the committee. The County Board and County Executive then approved the contract of the successful firm.

The audit was performed to provide reasonable assurance that the financial statements are free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended December 31, 2007 are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditors' report is presented as the first component of the financial section of the CAFR.

The accounting firm of Coleman & Williams, Ltd. has issued reports on its audit of Federal and State grants known as the Single Audit Report. The Single Audit Report has been issued under separate cover.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report for the year ended December 31, 2006. This was the twenty-eighth consecutive year that the County has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report could not have been accomplished without the dedicated service of the entire staff of the Department of Administrative Services, Fiscal Affairs Division, the assistance of personnel in the various departments and through the competent service of the independent public accountants as well as the Department of Audit. We would like to express our appreciation to all persons who assisted in its preparation.

Respectfully submitted,



Steven Kreklow, Fiscal and Budget Administrator
Department of Administrative Services



Scott Walker
County Executive

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Milwaukee
Wisconsin

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



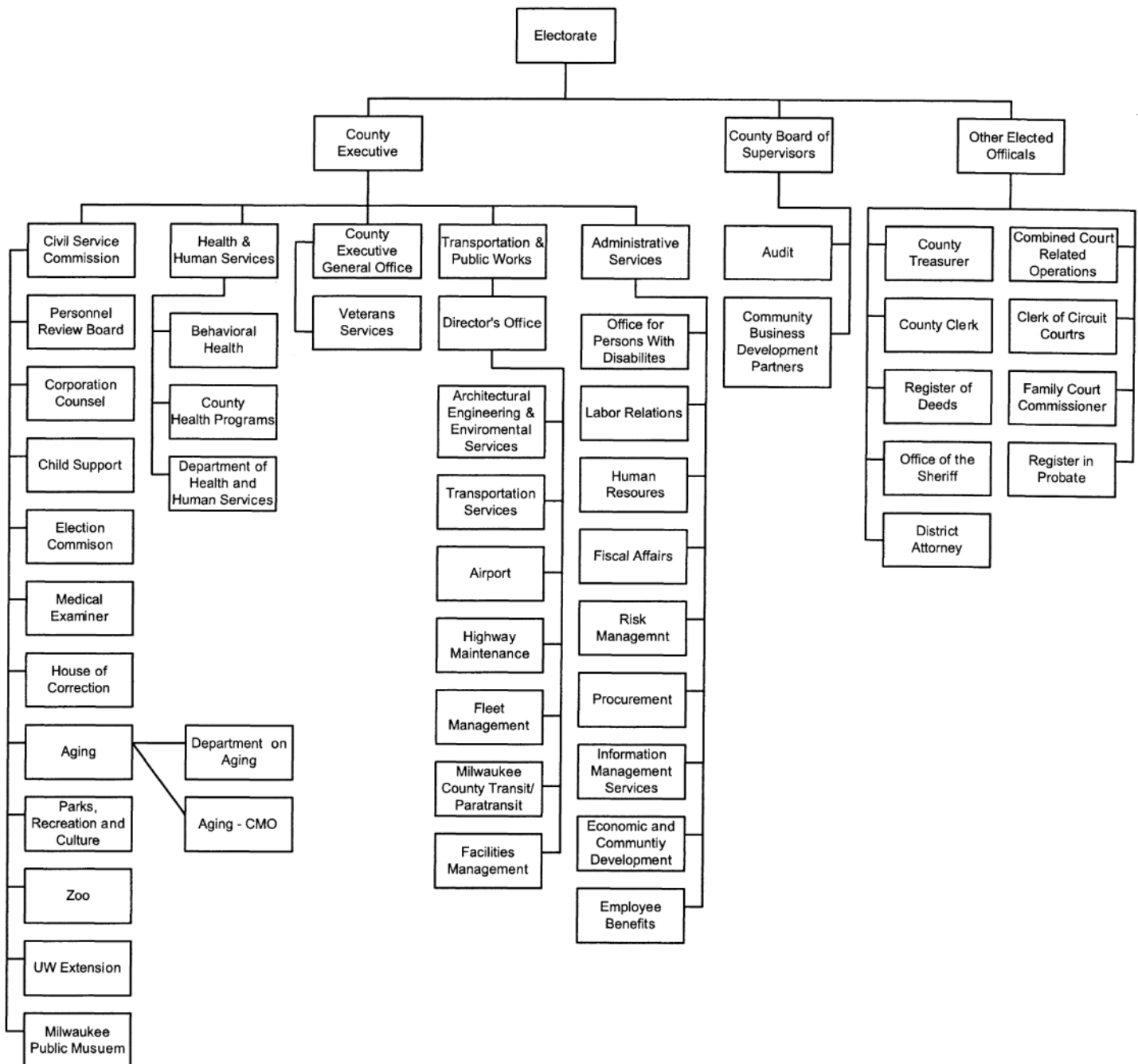
Charles S. Cox

President

Jeffrey R. Emer

Executive Director

COUNTY OF MILWAUKEE ORGANIZATIONAL CHART





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